

Message Text

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INFO JCS WASHDC

USCINCEUR VAIHINGEN

AMEMBASSY PARIS

C O N F I D E N T I A L SECTION 1 OF 2 USNATO 3736

E.O. 11652: GDS 12-31-79

TAGS: NATO, XG, ETRN

SUBJ: CENTRAL EUROPE PIPELINE SYSTEM (CEPS)

DEFENSE FOR OASD/I&L, MR. NOLAND AND COMPT, MR. UMBARGER;
JCS FOR J-4 PETROLEUM; USCINCEUR FOR J-4/JPO; AMEMB PARIS FOR
MR. HUMPHREYS.

REF: A. STATE 123102; B. PARIS 17723; C. USCINCEUR ECJD 11352;
D. USNATO 3465

BEGIN SUMMARY: THIS MESSAGE OUTLINES EFFECTS OF LIKELY COUNTER-
ACTIONS WHICH COULD BE TAKEN BY FRENCH IN RESPONSE TO U.S.
INITIATIVES TO REQUIRE INCREASES IN FRENCH NON-MILITARY TARIFFS,
ELIMINATION OF ALL FRENCH TAXES AND ELIMINATION OF CEPS ANNUAL
DEFICIT.END SUMMARY.

1. REFERENCE A. REQUESTED USNATO AND EMBASSY PARIS ASSESSMENT
OF IMPACT OF LIKELY COUNTERACTIONS BY FRENCH. REFERENCE B. IS
ASSESSMENT FORWARDED BY EMBASSY PARIS. REFERENCE C. IS USEUCOM
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STATEMENT OF MILITARY IMPACT OF DENIAL OF DONGES-METZ U.S.
PIPELINE (DMM) AND CENTRAL EUROPE PIPELINE SYSTEM (CEPS) IN
FRANCE. REFERENCE D. IS REPORT OF INITIAL DISCUSSION OF NATO
AUDITORS' SPECIAL REPORT ON NON-NATO MOVEMENTS IN FRANCE BY

CENTRAL EUROPE PIPELINE POLICY COMMITTEE (CEPPC).

2. USNATO AGREES WITH EMBASSY PARIS (REF B.) THAT BEST LIKELIHOOD OF AVOIDING ADVERSE IMPACT ON CONTINUING USE OF DMM AND CEPS IN FRANCE IS CONTINUATION OF PRESENT BUSINESS LIKE APPROACH AND AVOIDANCE OF POSITIONS WHERE U.S. IS ISOLATED FROM OTHER ALLIES.

3. WE CONSIDER THAT GREATEST LIKELIHOOD OF FRENCH UNILATERAL ACTION TO TERMINATE DMM AGREEMENT WOULD BE AS RESPONSE TO U.S. VETO OF CONTINUATION OF LAVERA-STRASBOURG NON-MILITARY USE AGREEMENTS. SUCH VETO WOULD BE EFFORT TO FORCE FRENCH TO OFFER HIGHER RATES TO CEPS. FRENCH INDUSTRIES IN CENTRAL RHONE VALLEY AND STRASBOURG AREA ARE IN SHORT TERM HIGHLY DEPENDENT ON PRESENT 2.3 MILLION CUBIC METERS PER YEAR OF REFINED PETROLEUM PRODUCTS TRANSPORTED BY CEPS. A SUDDEN INTERRUPTION WOULD BE EXPENSIVE AND NO DOUBT CAUSE INDUSTRIAL DISTRUPTION AND HARDSHIPS FOR ALL LOCAL USERS OF PETROLEUM PRODUCTS. FRENCH WOULD PROBABLY TAKE WHATEVER STEPS NECESSARY TO PREVENT ANY SUCH INTERRUPTION IN THE FLOW OF PRODUCTS. OTHER U.S. INITIATIVES SUCH AS CONTINUATION OF PRESENT INSISTENCE THAT TAXES ON CEPS BE ELIMINATED, LINKED TO A U.S. DISAPPROVAL OF FUNDS FOR PROFIT TAX PAID BY TRAPIL OR FOR TAXES PAID BY FRENCH DIVISIONS (BOTH AIMED AT REDUCING CEPS DEFICIT) WOULD LIKELY ALSO PRECIPITATE STRONG FRECH REACTION BUT COUNTERACTIONS MIGHT BE TAKEN IN MORE DELIBERATE FASHION.

4. POSSIBLE FRENCH COUNTERMEASURES ARE LISTED BELOW IN CHRONOLOGICAL SEQUENCE AS BEST WE CAN FORESEE THEM. IN REACTION TO ABOVE CITED U.S. INITIATIVES:

A. FRENCH MAY REQUEST THAT OTHER MEMBERS OF THE CEPPC AFFIRM FRENCH RIGHT TO REGULATE TARIFFS AND TAXES IN FRANCE AND JOIN FRANCE IN REQUEST FOR U.S. TO RECONSIDER AND RETRACT ITS DEMANDS.

COMMENT: WE WOULD ANTICIPATE SOME SUPPORT FROM GERMANY BUT IN SHOWDOWN VOTE U.S. COULD FIND ITSELF VIRTUALLY ALONE. OTHER
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NATIONS HAVE NOT SHOWN TEHMSELVES AS PREPARED FOR A CONFRONTATION WITH FRANCE ON ISSUE OF CEPS FINANCIAL SELF-SUFFICIENCY. THEY ARE PLEASED TO GET SOME RETURNS ON INVESTMENT IN WHAT THEY VIEW AS A "MILITARY PIPELINE SYSTEM". END COMMENT.

B. IF U.S. THEN PERSISTED IN VETO OR DENIAL OF FUNDS IN CEPPC, FRENCH COULD APPEAL TO NAC WITH U.S. REQUIRED TO SHOW CAUSE WHY NON-MILITARY MOVEMENTS SHOULD CEASE, WHY CURRENT RATES PAID CEPS WERE NOT SUFFICIENTLY COMPENSATORY AND TO CITE ANY LEGAL BASIS REQUIREING FRANCE TO GRANT TAX RELIEF TO CEPS.

COMMENT: ALTHOUGH WE COULD PROBABLY SATISFACOTRILY DEMONSTRATE THAT RATES ARE BELOW VALUE OF SERVICE IN COMPARISON TO CERTAIN

COMMERCIAL PIPELINE RATES IN FRANCE, WE COULD NOT SHOW RATES WERE NON-COMPENSATORY. BECAUSE, UNDER CEPS CHARTER, PIPELINE DIVISIONS REMAIN NATIONAL (NOT NATO) ENTITIES, WE COULD NOT SUSTAIN THEIR RIGHT TO EXEMPTION FROM TVA OR PROFIT TAX UNDER OTTAWA AGREEMENT. WE COULD SHOW RELIEF GRANTED CEPS BY OTHER HOST COUNTRIES BUT COULD NOT REQUIRE FRENCH TO DO SAME IF THEY DO NOT CHOOSE TO. END COMMENT.

C. SHOULD THE U.S., ISOLATED FROM SUPPORT OF OTHER CEPS NATIONS, PERSIST IN ITS POSITION, THE FRENCH MIGHT WELL TAKE UP BILATERAL DISCUSSIONS ON DMM AGREEMENT AND INDICATE, AS PERMITTED UNDER ARTICLE X, A DESIRE TO DENOUNCE THE AGREEMENT AND TERMINATE U.S. USE - IN LIGHT OF DIFFERENCES OF VIEWS WHICH HAD NOW EMERGED SINCE AGREEMENT WAS SIGNED ON RIGHTS AND RESPONSIBILITIES OF FRANCE FOR THE REGULATION OF PIPELINE SERVICES.

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COMMENT: SUCH ACTION COULD BE TAKEN UNDER THE TERMS OF THE DMM AGREEMENT BY FRANCE, GIVING ONE YEAR'S NOTICE OF DESIRE TO TERMINATE; OR, COULD POSSIBLY BE MADE IN FACT EFFECTIVE MUCH SOONER BY HAVING TRAPIL SIMPLY STOP TRANSPORTATION OF U.S. PRODUCTS OF DMM FOR TECHNICAL, SAFETY OR OTHER ADMINISTRATIVE REASONS AT ANY TIME. ADDITIONALLY, THE BASIS FOR OPERATION OF THE CEPS IN FRANCE IS PRESENTLY DIRECTLY DEPENDENT ON THE U.S.-FRENCH DONGES-METZ AGREEMENT. FRANCE WOULD, ON DENUNCIATION AND TERMINATION OF THE DMM AGREEMENT, APPARENTLY BE FREE TO TERMINATE CEPS OPERATING RIGHTS IN FRANCE, OR TO CAUSE THEM TO BE ESTABLISHED ON SOME NEW BASIS. END COMMENT.

5. EFFECTS OF FRENCH COUNTERACTIONS WOULD BE FELT POLITICALLY AND FINANCIALLY. MILITARY EFFECTS HAVE BEEN COMMENTED ON BY USCINCEUR. IN POLITICAL TERMS, EVENT WOULD AS MINIMUM STRENGTHEN HAD OF ARCH GAULLISTS AND ANTI-NATO FACTION IN FRANCE AND PROVIDE BASIS FOR CONSIDERABLE ADVERSE PRESS COMMENT CONCERNING U.S. AND NATO. ECONOMICALLY, COSTS FOR PETROLEUM DELIVERIES TO U.S. FORCES WOULD BE CONSIDERABLY HIGHER. ALL COST DATA TO PERMIT COMPARISON OF PRESENT DELIVERED COST VERSUS COSTS FOR MOVEMENTS
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VIA PORTS IN BELGIUM AND NETHERLANDS OR THROUGH LOCAL PROCUREMENT NOT AVAILABLE TO USNATO. WE CAN HOWEVER ESTIMATE CEPS MOVEMENT COSTS. THESE WOULD INCREASE FROM PRESENT AVERAGE OF FFR 8.05 PER CUBIC METER TO APPROXIMATELY FFR 19. APPROXIMATE ANNUAL U.S. MOVEMENTS OF 600,000 CUBIC METERS WOULD RESULT IN INCREASED U.S. PAYMENT TO CEPS FOR MOVEMENTS OF 6.6 MILLION FFR. COST DATA FOR DMM ANNUAL OPERATING COSTS AND LOCAL PROCURMENT VICE DFSC OFFSHORE PROCUREMENT AND DELIVERY VIA DMM AND CEPS NOT AVAILABLE HERE.

6. FRENCH COULD USE U.S. INITIATIVES, IF OVERPLAYED, AS EX-CUSE FOR TERMINATION OF PRESENT U.S. AND NATO PIPELINE OPERATING ARRANGEMENTS AND EITHER PROCEED TO OFFER MINIMUM COMPENSATION FOR OUR CONSIDERABLE INVESTMENT OR PURSUE NEW AGREEMENTS ON BASIS EVEN MORE FAVORABLE TO FRANCE THAN AT PRESENT. IF FRENCH SEGMENT OF CEPS WERE DENIED, U.S. AND CEPS WOULD END UP PAYING HIGHER RATES FOR FUEL MOVEMENTS, WOULD LOSE USE OF THE APPROX. 50 PERCENT OF CEPS STORAGE IN FRANCE (670 THOUSAND CUBIC METERS). THE DIVERSION OF ALL MILITARY FUEL MOVEMENTS FROM FRANCE TO BELGIUM AND NETHERLANDS WOULD OVERLOAD SOME SEGMENTS OF CEPS PIPELINE AND REDUCE CAPACITY AVAILABLE FOR NON-MILITARY USE IN BE, NE AND GERMANY. PRESENT ARRANGEMENTS, WHILE FAR FROM SATISFACTORY, PROVIDE CEPS WITH APPROXIMATELY 2-3 MILLION FFR ANNUAL NET SURPLUS FROM FRENCH OPERATIONS WHEN FRENCH CONTRIBUTION TO CEPS DEFICIT IS INCLUDED.

7. COMMENT: IN OUR VIEW PRESENT CEPPC CONSIDERATION OF NATO AUDIT REPORT (SEE REF D) COMBINED WITH U.S. PROPOSALS FOR ADJUSTMENT OF CEPS FINANCIAL BURDEN AND ULTIMATE ELIMINATION OF DEFISIT PROVIDE VIABLE BASIS FOR BUSINESSLIKE NEGOTIATION. RESULT SHOULD BE SOMEWHAT HIGHER NON-MILITARY RATES AND SUBSTANTIAL RELIEF FROM EFFECTS OF PRESENT FRENCH TAXES. OUR PREFERRED ULTIMATE GOAL HOWEVER IS REDUCTION OF U.S. PERCENTAGE OF CONTRIBUTION TO CEPS DEFICIT FROM PRESENT 36 PERCENT TO ZERO. WE INTEND TO PURSUE THIS IN CEPS BURDEN-SHARING STUDIES. MEANTIME WE INTEND TO CONTINUE TO EXPLOIT EVERY OPPORTUNITY TO KEEP PRESSURE ON FRENCH. END COMMENT. RUMSFELD

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